MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 RATING AND STABLE OUTLOOK TO THE IDAHO BOND BANK AUTHORITY REVENUE BONDS, SERIES 2010B

Global Credit Research - 22 Oct 2010

APPROXIMATELY $225 MILLION OF DEBT AFFECTED, INCLUDING CURRENT OFFERING

County
ID

Moody's Rating

ISSUE		RATING
Revenue Bonds, Series 2010B-1		Aa1
Sale Amount	$27,000,000	
Expected Sale Date	10/27/10	
Rating Description	Revenue Bonds	
Revenue Bonds, Series 2010B-2		Aa1
Sale Amount	$1,500,000	
Expected Sale Date	10/27/10	
Rating Description	Revenue Bonds	

Opinion

NEW YORK, Oct 22, 2010 -- Moody's Investors Service has assigned a Aa1 rating and a stable outlook to the Idaho Bond Bank Authority Revenue Bonds, Series 2010B-1 and 2010B-2 expected to be issued in the aggregate amount of approximately $28.5 million. At this time, Moody's affirms the Aa1 rating on the Idaho Bond Bank Authority's outstanding bonds in the approximate amount of $196 million. All of the bond bank's debt is currently fixed rate obligations. Proceeds from the current offering will be used to provide a loan to one existing participant. Proceeds from the current sale are secured by a general obligation pledge of Benewah County, although the County intends to repay the loan from net revenues of a county-owned hospital. Further security is provided by the state intercept whereby intergovernmental revenues will be transferred directly to the trustee to pay debt service if payment has not been received within ten days of the debt service payment date. The 2010B bonds are also secured by a pledge of the state's sales tax revenues.

RATINGS RATIONALE

The Aa1 rating primarily reflects the broad pledge of the State of Idaho's (Issuer Global Scale Rating Aa1, with a stable outlook) sales tax revenues, the state intercept mechanism, satisfactory payment timing. The rating also takes into account the voter-approved unlimited ad valorem property tax pledge of the County with the intention to use hospital net revenues for repayment.

BOND BANK AUTHORIZED BY CONSTITUTION AND STATUTE AND APPROVED BY VOTERS

The Idaho Bond Bank program was authorized in 2001 as a result of a series of legislative and voter-approved actions. The Legislature approved an amendment to the Idaho State Constitution (Article VIII, Section 2A); the voters of Idaho approved the creation of the Idaho Bond Bank and the state sales tax pledge in 2000. The program was authorized in 2001 by the Idaho Bond Bank Authority Act (Title 67, Chapter 87 of the Idaho Statutes), which established the bond bank to provide Idaho communities with an attractive mechanism for financing local infrastructure. Under the bond bank program, each series of bonds is secured by a pledge of the underlying borrowers. The security set forth in each underlying borrower's loan agreement may include, but is not limited to a general obligation, pledge of net enterprise revenues, property tax assessments, or a general fund lease. Further, the bond bank program includes a credit review process and minimum credit criteria for potential borrowers. The process includes a qualitative component ensuring eligibility in the program, the legal authority to borrow, and a review of the borrower's capital planning program. The quantitative component evaluates criteria including the historical strength of the borrower's specific pledge, the impact of the borrowing on operating funds, and minimum debt service coverage thresholds, as well as economic, population and tax base trends.

MECHANISM AND TIMING OF STATE SALES TAX PAYMENTS IS SATISFACTORY; PLEDGED STATE SALES TAX REVENUES PROVIDE HEALTHY COVERAGE OF IDAHO BOND BANK AUTHORITY BONDS

Interest payments are due March 15 with principal and interest due on September 15. Bond bank loan participants are required to pay the bond bank trustee 15 days prior to bond payment. If the participant's payment has not been received within 10 days of the payment date, the trustee is required to notify the state treasurer to implement intercept procedures, if applicable. Finally, if funds are insufficient within five days of the payment date, the state treasurer will transfer from the state sales tax account an amount sufficient to make the scheduled debt service payment.

Due to a constitutional prohibition on the lending of the state's credit to municipalities, Idaho has opted to provide for a pledge of state sales tax revenues to guarantee full and timely payment of loan participant debt service when due. The State of Idaho's Tax Anticipation Notes (TANs) have the most senior lien on the sales tax revenues. The TANs, however, are secured by tax revenues, including individual income, sales tax collections, and corporate income, to be received in the fourth quarter, as well as the state's full faith and credit general obligation pledge. The State of Idaho's Tax Anticipation Notes Series 2010 in the amount of $500 million received a Moody's MIG-1 rating in June 2010 and projected fourth-quarter revenues provide 1.6 times coverage of note principal. Idaho School Bond Guaranty (ISBG) bonds issued since July 1, 2001 outstanding in the approximate amount of $643.82 million have a parity lien on State Sales Tax Revenues. To date the ISBG program (Aaa) has never made any claims against the State Sales Tax revenues given the voter-approved unlimited ad valorem property tax pledge securing each ISBG participant, presence of Public School Permanent Endowment Fund and the state intercept mechanism. Typically, the amount of interceptable revenues allocated to a school district far exceed the amount of annual debt service required to be paid in any given year; fiscal 2010 interceptable revenues to school districts participating in the ISBG program provided an average of roughly 15 times coverage of MADS.

Similar to other western states, depressed consumer activity resulted in declining sales tax revenues in fiscal 2009 by 10.3% from the prior year followed by a subsequent 6.4% drop in fiscal 2010. For the current year, officials estimate state sales revenues will increase slightly by 3.5% (compared to an originally projected increase of 3.9%). Coverage of maximum annual debt service (MADS) in 2020 of all outstanding IBBA debt by fiscal 2010 pledged revenues is still strong at 58.9 times. FY10 state sales tax revenues are estimated to provide MADS (2010) coverage of roughly 12.8 times for both the IBBA program and the Idaho School Bond Guaranty Program (ISBG) - which occurs in FY 2012. As of August 2010, the state's unemployment rate increased only slightly to 8.6% (from 8.5% in August 2009), but below the nation (9.5%). To date, the program does not have a borrowing cap. Moody's will continue to monitor the borrowing trends of both the IBBA and the school bond guaranty program; management indicates preliminary planning on establishing a borrowing cap.

BOND BANK BECOMING SOMEWHAT CONCENTRATED; CREDIT QUALITY OF CURRENT PARTICIPANT IS WEAK

The current sale includes a single loan of approximately $28.5 million to Benewah County (no underlying rating). The loan is secured by a voter approved unlimited ad valorem property pledge although the County intends to repay the loan with net revenues from the County Hospital. Proceeds will be used to remodel the hospital building on its current site. The project also includes a new two-story medical office building, surface parking, a renovated emergency room and new central registration space.

The County also borrowed in 2009. That loan is outstanding in the amount of $1.6 million, was also voter-approved, and has a parity unlimited property tax pledge. The 2009 issue is being paid from net revenues from the County's solid waste system. Combined, both Benewah County loans comprise a moderate 13.4% of total outstanding loans since the program's inception making it the largest borrower in the program.

Since 2009, three other borrowers have entered into the program and each make up between approximately 11% and 12% of total outstanding loans; combined, all four borrowers now represent 47% of total par which Moody's views as somewhat concentrated. A partial mitigant is that three of those four borrowers have pledged an unlimited property tax to repay the loans. Moody's notes Benewah County's prior loan and the current loan are also secured through state intercept payments established under Idaho Code. However, fiscal 2010 interceptable state payments to the county are marginal and only totaled $580,000, or 27% of MADS. Importantly, the 2010B bonds are additionally secured by a transfer from the state sales tax account in an amount sufficient to make the scheduled debt service payment.

Each participant in the program is required to execute a loan agreement with the bond bank to provide funds to make payments on the new loan. The bond bank will use these payments to repay the participant's portion of the Series 2010B bonds. There are no cross-default provisions in the loan agreements; therefore each participant will not be liable for the failure of any other municipality to make payments with respect to previously issued bonds.

Since the 2000 census, the County's population increased a modest 1.0% to an estimated 9,258 (2009). The nearly 800 square mile County is located in northeast Idaho. The County's full market value increased an average of 9.3% annually between 2007and 2011, including a slight decline of 1.6% in 2011. The 2011 tax base is a small $823 million. Top ten taxpayers comprise an above average 24% of 2010 assessed value and are concentrated in the timber industry. Similar to the region and nation residential construction is expected to remain slow n the near term with very limited commercial activity. According to the 2000 census, per capita and median family income levels were below state averages at 86% and 83%, respectively. The County's General Fund balance declined from $1.3 million (50.5% of revenues) in fiscal 2007 to $927,000 in fiscal 2009 and management estimates FY10 ended at a low $358,000. Including the current sale, the County's direct debt burden is above average at 3.7. Positively, management does not have plans to issue additional debt in the next three to five years.

Importantly, the hospital has recently begun setting aside monthly contributions in the County-held Bond Fund in order to accumulate reserves, one year ahead of scheduled loan repayment dates, equal to annual debt service. If these amounts are insufficient by September 1st, the County will then certify its property tax rate for the following year to make up the deficiency. Given this payment structure and the likelihood of hospital payment disruption, Moody's views oversight at all levels (hospital, County, and Bond Bank) as critical.

County hospital facilities include a 25 licensed-bed critical access hospital, a rural health clinic and a physician's clinic in St. Maries - the County seat. Similar to other providers in the region, inpatient admissions dropped in fiscal (FY) 2009 but outpatient business was relatively stable. Management, optimistically, projects inpatient admissions will increase in the near term, then level off after 2015. The hospital's payor mix is comprised of primarily Medicare, followed by Blue Cross/Blue Shield with Medicaid and commercial payors making up smaller net revenue payor amounts.

Fiscal year 2009 total operating revenues was $14.1 million, which was nearly 7% below the prior year. Overall, operating performance has declined over the last three years including FY 2009 with an operating income of $238,000 (1.7% operating margin), down from $1.3 million (7.5% margin) in FY 2008. Similarly, operating cash flow declined in FY 2009 to $878,000 (6.2% cash flow margin) from $1.74 million (11.5% margin) in FY 2008.

Positively, unrestricted liquidity balance grew to $1.99 million at fiscal year-end (FYE) 2009 (December 31) and resulting in 54 days cash on hand compared to $1.87 million (51 days) at FYE 2008. Going forward, management-prepared projections indicate a combination of increased overall patient volumes and 4% annual increases to standard charges along with controlled expenses will result in 1.08 times coverage of debt service in the first payment year (2012) and increase to about 1.9 times by 2016.

Given the County's trend of declining reserves and relatively small budget, Moody's views the current participant as a notable weakness to the program. Moody's also views the hospital's projections as optimistic given historically slow population growth, the ongoing economic downturn, and recent financial performance. As such, Moody's stresses the importance of the underlying unlimited general obligation pledge of the current transaction and the maintenance of very strong coverage on all outstanding loans by state sales tax revenues. Additional rating factors specific to the current transaction include the close monitoring of monthly set asides in the County Bond Fund at the participant level and close coordination with the bond bank to ensure no disruption of timely payments through the life of the bonds.

What could make the rating move - UP

-Sustained strong increase in state sales tax revenues

-Trend of reduced borrowing amounts and borrower concentration

-Trend of improved credit quality at borrower level

What could move the rating - DOWN

-Significant leveraging of state sales tax pledge

-Use of the state intercept or state sales tax to make up borrower deficiencies

-Increased borrower concentration

KEY STATISTICS:

Service area population: 9,258

2011 full valuation: $823 million

Average annual growth in AV, 2007 to 2011: 9.3%

Direct debt burden: 3.7%

Total licensed beds: 25

Total operating revenues: FY 2008; FY 2009: $15.2 million; $14.1 million

Days cash on hand: FY2008; FY2009: 51, 54

Outlook

The Idaho Bond Bank Authority's rating outlook is stable based on continued solid coverage of outstanding debt service and a recent improvement in state sales tax revenues. Subsequent reviews will focus on the frequency of future borrowing, dilution of coverage by state sales tax revenues, as well as borrower concentration and credit quality.

The last rating action was on April 22, 2010 when a municipal scale rating of Aa2 with stable outlook was assigned to the Idaho Bond Bank Authority. The rating was subsequently recalibrated to a global scale rating of Aa1 on May 1, 2010.

The principal methodologies used in rating Idaho Bond Bank Authority were State Aid Intercept Programs and Financings published in February, 2008 and General Obligation Bonds Issued by U.S. Local Governments published in October, 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Analytics' information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

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